LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

301 State House
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FISCAL IMPACT STATEMENT

LS 7910 **DATE PREPARED:** Mar 30, 2001
BILL NUMBER: HB 1866 **BILL AMENDED:** Mar 29, 2001

SUBJECT: Case-Mix Reimbursement for Nursing Homes.

FISCAL ANALYST: Alan Gossard
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FUNDS AFFECTED: X **GENERAL**
DEDICATED
X **FEDERAL**

IMPACT: State

Summary of Legislation: (Amended) *Drug Utilization Review Board:* This bill requires the Medicaid Drug Utilization Review (DUR) Board to evaluate and make recommendations to the Office of Medicaid Policy and Planning (OMPP) on programs and initiatives that can be utilized to reduce costs in the Medicaid outpatient and institutional prescription drug programs. The bill requires the DUR Board to conduct an audit of the Medicaid outpatient and institutional prescription drug programs for state fiscal years 1999, 2000, and 2001, to determine if any claims reimbursed were fraudulently billed. It also requires the DUR Board to conduct an ongoing audit of the Medicaid outpatient and institutional prescription drug programs for each state fiscal quarter. It also provides reporting requirements for the audits. OMPP is to provide information to the DUR Board that is necessary for the DUR Board to carry out its duties.

Medicaid Case-Mix Reimbursement System: This bill also requires the Office of the Secretary of Family and Social Services (FSSA) to make various amendments to the administrative rule regarding the Medicaid case-mix reimbursement system for nursing homes. OMPP is to apply to the federal Health Care Financing Administration (HCFA) for a Medicaid state plan amendment to implement certain rule changes. The bill prohibits FSSA from repealing or amending certain administrative rules without statutory authority. It also requires FSSA, not later than August 1, 2001, to evaluate certain information regarding health care costs, develop Medicaid programs or funding mechanisms, and submit a state plan amendment to HCFA for approval of those programs or mechanisms. FSSA is to file a report with the Legislative Council regarding the development of programs or funding mechanisms not later than October 1, 2001.

Effective Date: (Amended) Upon passage; July 1, 2001.

Explanation of State Expenditures: (Revised) *Medicaid Case-Mix Reimbursement System:* This bill makes several changes to the Medicaid case-mix reimbursement system used for reimbursing nursing home providers in the Medicaid program. A preliminary estimate of the total cost to the ***state*** Medicaid program is estimated to be $35.30 M initially, and $18.35 M annually. (These costs will commence in FY 2003 with

the exception of the provision to remove professional liability insurance from the administrative component and reimburse separately. This provision is projected to cost $10.15 M in state dollars beginning in FY 2002.)

[The additional cost in the first year is a cost associated with the initial timing of payments, rather than an additional cost on the system. These expenditures would have otherwise been made to nursing homes at some time in the future. In addition, it is important to note that the effects of interactions between the various components of the bill have not been modeled at this time. Consequently, the total cost estimate is preliminary and may overestimate the total cost if all provisions were implemented.]

Total additional expenditures are estimated to be about $92.9 M initially, with federal reimbursement of $57.60 M. Total on-going expenditures are estimated to be $48.3 M, of which $29.95 M represents federal dollars. The estimated cost of each individual proposal is provided in the following table, along with federal and state shares of the expenditures.

Provision	Total Costs	Federal Share	State Share
Removal of therapies from direct care component; reimburse therapies as a separate component; utilize 34 grouper version 5.12 of the RUG-III classification system.	($16.0 M)	($9.92 M)	($6.08 M)
Increase indirect care overall rate limitation by 10% (to 110%).	11.4 M	7.07 M	4.33 M
Increase administrative overall rate limitation by 5% (to 105%).	2.8 M	1.74 M	1.06 M
Remove repairs and maintenance from capital and reimburse through the indirect care component.	3.6 M	2.23 M	1.37 M
Increase capital overall rate limitation by 10% (to 90%).	13.4 M	8.31 M	5.09 M
Decrease minimum occupancy standard to 90%.	3.0 M	1.86 M	1.14 M
Remove property taxes from capital component and reimburse separately without limitation.	1.8 M	1.12 M	0.68 M
Remove professional liability insurance from the administrative component and reimburse separately.	26.7 M	16.55 M	10.15 M
Hold harmless for ventilator providers.	1.6 M	0.99 M	0.61 M
Total On-Going Costs	$48.3 M	$29.95 M	$18.35 M
No phase-in for rate-setting. **	44.6 M	27.65 M	16.95 M
*** Total First Year	$92.9 M	$57.60 M	$35.30 M

** This item represents a preliminary estimate of the initial cost associated with changing reimbursement rates initially and would occur only in the initial year. This amount would have been paid to nursing facilities over the following 18 to 24 months, anyway. Consequently, it represents a timing difference, rather than an additional cost on the system.

*** The effect of interactions between the various components of the bill have not been modeled at this time. Consequently, the total cost of all provisions is a preliminary estimate and may overstate the actual cost if all provisions were implemented.

Source: Myers and Stauffer LC, 1/9/01.

Drug Utilization Review Board: The bill provides that the DUR Board is to evaluate and make recommendations to OMPP on programs or initiatives to reduce costs in the Medicaid outpatient and institutional prescription drug programs. In addition, the Board is to conduct audits of these programs to determine if any claims for prescription drugs were claims that were fraudulently billed. This will require additional meetings for the Board, involving additional per diem and travel reimbursement for Board members. Additional Board expenses are anticipated to be able to be covered within the OMPP budget.

In addition, FSSA and OMPP are to identify options for obtaining additional federal financial participation (FFP) under the Medicaid program. These options may include the expanded use of intergovernmental transfers, local or state government funds that would be eligible for FFP, additional disproportionate share

hospital payments for state mental institutions, court-ordered health care services that are paid by the state or local units of government, waiver expansions, etc. Any additional FFP obtained will depend upon administrative success in identifying and implementing feasible options.

Explanation of State Revenues: (Revised) See Explanation of State Expenditures, above, regarding federal reimbursement through the Medicaid program. Total expenditures are shared with the federal government reimbursing about 62% of expenditures. The state share represents about 38%.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Office of Medicaid Policy and Planning (OMPP).

Local Agencies Affected:

Information Sources: Kathy Gifford, OMPP, (317) 233-4455.